

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Stufflebean

SUBJECT: AMENDMENTS TO SOLID
WASTE SERVICE AGREEMENTS

DATE: 03-24-10

Approved



Date

3/26/10

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

On March 23, 2010, the City Council approved the FY 2010-2011 Mayor's March Budget Message, which included direction for the Administration to explore any and all solid waste service proposal types, including multi-year extensions, as long as they provide high quality, environmentally beneficial, and cost-effective solid waste disposal services to the residents of San José. The purpose of this supplemental is to acknowledge this direction and further explain some of the issues presented in the March 18, 2010 Council memorandum "Amendments to Solid Waste Service Agreements."

MULTI-YEAR ALTERNATIVES TO THE TWO-YEAR EXTENSION

Staff identified two multi-year options in the Policy Alternative section of the March 18, 2010 memorandum (Alternatives #1 and #3). The principal "con" for Policy Alternative #1 (existing haulers provide services until 2021) is that this proposal is inconsistent with Council's direction for the maximum term of these agreements in the 2000 and 2006 Recycle Plus services procurements. The 2006 Recycle Plus agreements, for example, include provisions to extend the contracts only for a maximum of two years, through June 30, 2015. If Council decides not to engage in a competitive procurement and directs staff to negotiate new solid waste collection agreements with the existing contractors for the 2021 alternative, staff recommends that the City's standard procurement integrity guidelines be followed.

There are considerable advantages for retaining the existing haulers until 2021. In addition to substantial cost savings, there are a number of environmental benefits, including expanded programs to divert waste from landfills and the use of alternative fuels in the large fleet of solid waste collection trucks that serve residential customers. Furthermore, these new agreements provide an opportunity to recycle residential garbage currently landfilled in the near-term, creating more employment in San Jose; the City's 2008 program to recycle apartment garbage,

for example, has created over 70 jobs. 2021 agreements could also be structured to support a variety of options for the Neighborhood Cleanup (NCU) Program should Council decide to make improvements to the program in the future. The Planning, Building, and Code Enforcement Department, which manages and staffs the events, recently revised the NCU program in 2008 to provide each neighborhood in the City a cleanup event every three years. Code Enforcement will complete the first three-year citywide effort by June 30, 2011. Staff, as requested by Council, will bring forth, to the Transportation and Environment Committee, an analysis of the cost to expand the NCU Program to a two-year rotation, in late 2010.

The 2021 alternative also provides an opportunity to include contract provisions for a hauler customer service and billing solution at some future date. Provided the transition can occur in the appropriate time frame, the City can avoid additional investments in either upgrading or implementing an interim billing system for Recycle Plus services. In most cities in California, including Oakland and San Francisco, the garbage haulers bill customers directly. The City's garbage haulers, Garden City Sanitation and GreenTeam of San José, already have the resources, facilities, procedures, and technology in place to perform these functions and currently provide these services for the other jurisdictions they service. The timing for bringing this billing option to Council's attention is driven solely by the current consideration of retaining the existing haulers beyond the anticipated 2015 system life of the City's Integrated Billing System (IBS). Incorporating a hauler billing alternative as part of a larger negotiation provides the best opportunity for the City to realize the most favorable pricing for these services.

Concurrently, the Administration is developing an extensive IBS Technical Strategy which will provide options for reducing on-going and one-time costs for IBS-related operations and ensure the continued reliability, accuracy, and fiscal controls of the billing system. The Technical Strategy will also provide considerations related to a revised billing business model for 2015 that addresses all services currently billed: City Business Tax, Storm and Sanitary Sewer, Municipal Water, and Recycle Plus. Any provisions in the Recycle Plus agreements for haulers to assume billing and customer service functions would be at the City's sole option. The provisions would be further developed as Council evaluates the IBS Technology Strategy and related Council policies, and will ultimately be approved by Council. In early March 2010, the Administration released two Informational Memorandums regarding IBS and the Recycle Plus hauler negotiations that provide additional information (see attached).

The March 18, 2010 memorandum identified two additional "cons" to Policy Alternative #1 (existing haulers provide services until 2021): restrictions to making significant program changes during the longer contract term and the lost opportunity to gain efficiencies by combining garbage and recycling services. These are outweighed by the significant advantages of the longer term. Additionally, staff can develop contract terms to mitigate the restrictions for making program changes by adding periodic contract "openers" to negotiate program modifications.

Several significant disadvantages remain with Policy Alternative #3 that are not easily resolved. To reiterate, staff does not recommend this alternative, as Council's abilities to obtain a fair

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03-24-10

Subject: Amendments to Solid Waste Service Agreements

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market assessment of other potential service providers would be limited, thereby locking in the current contractors and prohibiting Council's prerogative to select alternative solid waste service providers.

COORDINATION

This supplemental memorandum has been coordinated with the City Attorney's Office, the Finance, Planning, Building, and Code Enforcement, and Information Technology Departments.

/s/

JOHN STUFFLEBEAN

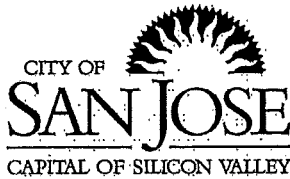
Director, Environmental Services

Attachments:

A. IBS System Update Informational Memorandum - March 1, 2010

B. Recycle Plus Hauler Negotiations Update Informational Memorandum - March 5, 2010

For questions, please contact Jo Zientek, Deputy Director, Environmental Services Department, at (408) 535-8557.



Distributed on:

SENT TO COUNCIL:

MAR - 4 2010

Memorandum by City Manager's Office

**TO: HONORABLE MAYOR
AND CITY COUNCIL****FROM:** John Stufflebean
Stephen R. Ferguson
Scott P. Johnson**SUBJECT: IBS SYSTEM UPDATE****DATE: 03-01-10**

Approved

Date

3/3/10

INFORMATION

The purpose of this memorandum is to update the City Council on significant issues related to the City's Integrated Billing System (IBS) and to provide an overview of strategic activities related to decisions and future planning with respect to IBS.

Staff is currently developing a strategy both to address Recycle Plus hauler contract extension terms and known technology system issues. A comprehensive plan is needed to address the transition of existing agreements supporting IBS, including Oracle/PeopleSoft for licensing and support, and Kubra for bill-print services and online payment capabilities. The expiration date of these related agreements is 2015, coinciding with the anticipated end of the useful life of IBS.

BACKGROUND

The original strategy and design of IBS was to meet the business objectives outlined below.

- Provide adequate management and billing capabilities for:
 - Recycling, garbage, and yard trimming services;
 - San José Municipal Water; and
 - Storm and Sanitary Sewer fees.
- Reduce redundant efforts in billing as well as improve the accuracy of the billing operation.
- Replace the aging legacy billing systems that were in use prior to IBS.

In order to meet these objectives the City entered into a series of contracts for the implementation and operation of a new billing system. An RFP was issued ultimately resulting in the implementation of a system utilizing PeopleSoft's Enterprise Revenue Management (PS-ERM) software.

PS-ERM serves as the billing engine for IBS. Typical of all essential systems, it was purchased with a maintenance contract and associated licenses for the City. In order to bring increased functionality to the system, the City agreement included a Customer Relationship Management

(CRM) module to track calls and responses in the newly consolidated City Customer Contact Center. During the time of purchase and implementation, these products were manufactured by PeopleSoft. The City purchased, configured and customized the product where necessary, to meet specialized business and programmatic needs. A multi-year implementation resulted in utilizing this PeopleSoft platform for utility billing (including garbage, recycling, water, and storm and sanitary sewer fees) and the customer contact center.

It should be noted that Oracle acquired PeopleSoft shortly after the City signed the contract with PeopleSoft.

In July 2006 the City's new consolidated IBS went 'live'. Expanded functionality that was part of the system included:

- Allowing new customer service enhancements to be delivered and billed for all utility services the City provides.
- Consolidated annual billings of over \$200 million per year which previously had been billed and tracked on separate systems. The new system allowed for a combined bill (garbage and water) for all customers subscribing to multiple City utility services.
- A single point of contact for residents seeking City customer service through consolidating the Recycle Plus and the City's general call centers.
- Replacing the aging legacy billing systems including removing Storm Water and Sanitary Sewer fees from an obsolete system (VAX) that posed risks to billing operations.

Since going 'live', a series of improvements have been made including:

- In July 2007, a major program change and system reconfiguration was implemented as the City converted from one to two haulers providing garbage and recycling services to the same household.
- In December 2008, the City Business Tax Program was transferred from VAX to IBS. This eliminated exposing business tax revenue to risks associated with the aging VAX system.
- In May 2009, additional drought functionality was added to meet the City's need to implement water conservation efforts being required region-wide.

Subsequent to the City signing the contract with PeopleSoft and Oracle acquiring PeopleSoft, the City was made aware that Oracle was not going to continue with support and maintenance of the PS-ERM product, instead focusing on another Oracle product called Customer Care & Billing (CC&B). The ramifications of Oracle's decision included their acknowledgement that no future versions of the product would be written and 'extended support' for the PS-ERM product would cease to be available.

There are three tiers to the Oracle support lifecycle. As products age they progress through these tiers with each providing fewer support features as the product ages.¹ Only 'sustaining support'

¹ Complete details can be viewed on Oracles website, document pages 2-3:
<http://www.oracle.com/support/library/brochure/lifetime-support-technology.pdf>

would be available, which provides only a minimal level of support. Originally the end of 'premier support', which the City subscribed to, was scheduled to occur in December 2009. Recently, Oracle notified the City that this type of support was extended until December 2010. 'Premier support' for CRM ended in July 2009 with 'extended support' available to June 2012.

In its current form, the IBS system is not a simple stand-alone billing system; rather it is a highly integrated product that has been customized to meet the City's current business needs and programmatic goals. IBS is integrated with other City systems and business processes including accounting, payment/cashiering, credit & collections, and water meter reading systems. IBS also interfaces to third-party systems such as the City's Recycle Plus haulers, KUBRA for invoice processing, Chase Paymentech for electronic remittance processing services, and the County of Santa Clara for property ownership updates. Many of these functions require synchronization with outside databases.

ANALYSIS

As time progresses, the risk and expense required for the City to remain on this platform increases which will manifest themselves by impairing the City's ability to introduce new business initiatives and programs. Support of the system is expected to become more expensive and difficult to execute as time progresses. Therefore, staff is developing a technology strategy to address this issue.

IBS Strategic Planning Efforts

In December 2008, the City engaged Langham Consulting to work with IBS stakeholder departments (Environmental Services, Information Technology, and Finance) to evaluate business processes, identify efficiencies to be gained within the current context of IBS, and to assist the City in establishing priorities with respect to mitigating issues surrounding the end of life for IBS. Currently Langham is working with staff to develop an IBS Technology Strategy within the next twelve months. This strategy is expected to focus on:

- Reducing costs (both one-time and ongoing).

Based on the 2008-2009 Operating Budget, costs associated with the technical and functional needs of the utility services provided through IBS cost the City approximately \$12 million per year. Approximately 66% of these costs are attributed to integrated waste management services. This includes direct and indirect expenses related to operating the Call Center, technology support team, bill printing, remittance processing, contract management, lien processing, technology support, capital, and licensing costs.

The identification of existing IBS business processes, which are good candidates for streamlining with the goal of reducing costs are being evaluated. Staff considers this an opportunity to re-tool duplicative business processes and also to re-examine the available technical platforms to best address the business needs of the current City programs

managed through IBS. This evaluation will include software, hardware, and hosting alternatives with attention being given to alternatives providing an economic benefit given the anticipated future economic environment (i.e. reduce costs).

- Ensuring the continued reliability, accuracy, and fiscal controls of the billing systems.

The first stage of the IBS Technology Strategy development is the completion of a business case that will define and recommend options for the future of IBS, specifically addressing the IBS lifecycle issue, and the funding requirements for the various options, including transition costs, start-up costs, and maintenance costs. This business case will consider the timing and nature of the renewal/re-bidding of hauler contracts, as well as the City's current fiscal situation.

Considerations and Options Related to Revised Utility Billing Business Model

One of the principal concerns relating to IBS's future is the end of lifecycle subsequent to Oracle's acquisition of PeopleSoft. If the City continues down the path of supporting robust and comprehensive business processes that require this caliber of a system, a major system migration (either replacing or upgrade/reimplementation) will need to be considered within the next three to five years at an estimated cost of \$10 million for purchase and implementation, not including internal staff costs. The City may be able to minimize this impact by further leveraging existing vendor services and contractual agreements. One potential leveraging opportunity may be the re-negotiation of the City's haulers agreements. For example instead of the City providing services to the haulers such as billing, customer service, and related business functions, the haulers can be responsible for providing these services directly to their customers. However, it should be noted that if that approach were to be implemented, the City would also need to consider the impacts of the remaining services that reside on IBS (Municipal Water, Storm and Sanitary Sewer, and Business Tax billings). These services could potentially be supported by a less complex system that is more appropriate to the business need, and costing considerably less to implement than the replacement or upgrade of IBS.

There are three alternatives to evaluate in moving forward with the IBS Technology Strategy. These include (1) an in-kind upgrade of the system; (2) to evaluate moving each application and service to a best-of-breed model; and (3) a combination of both strategies.

- In-Kind Replacement – As is the case today, this alternative would provide a common billing system for each of the existing (or remaining) billing components. This strategy would include the option of using the current vendor's product as well as other alternative systems.
- Best of Breed Replacement - This option would allow the City more flexibility in looking at individual system options for providing each of the billing functions within the current IBS. Using this approach, the evaluation would require an analysis of each component as a separate individual system and the related services available in their area of specialty. Conceptually this would allow a service like the billing for Integrated Waste Management to be administered as a contractual service of the hauler rather than

03-01-10

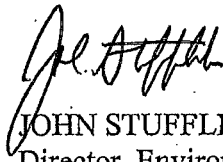
Subject: IBS System Update

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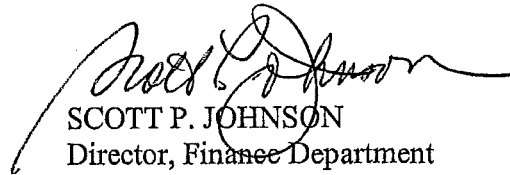
requiring a system similar to what is utilized today.

- Combination – A combination of the two approaches may be advantageous to the City. Through the analysis of the system's requirements it may be found that having a common base system with additional services is the most effective solution. This approach can be seen in the exiting systems with bill print services being provided by a third party vendor.

Moving forward, staff will be working to define the best business model for the organization as well as a technology strategy that aligns to it. This approach will result in a solution that is the most advantageous for the organization. Staff will be providing Council an update on this effort as part of the residential solid waste agreement extension recommendations anticipated to be brought to Council for consideration in late March 2010.



JOHN STUFFLEBEAN
Director, Environmental Services

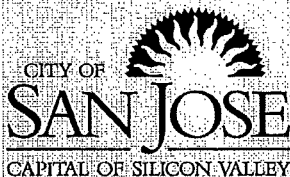


SCOTT P. JOHNSON
Director, Finance Department



STEPHEN R. FERGUSON
Chief Information Officer

For questions please contact Jo Zientek, Deputy Director, Integrated Waste Management Division, at (408) 535-8557.

SENT TO COUNCIL: Distributed on:

MAR 10 2010

Memorandum Office**TO: HONORABLE MAYOR
AND CITY COUNCIL****FROM: John Stufflebean****SUBJECT: RECYCLE PLUS HAULER
NEGOTIATIONS UPDATE****DATE: 03-05-10**

Approved

Date

3/10/10

INFORMATION

The purpose of this memorandum is to update the City Council on the negotiations currently underway to extend the Recycle Plus hauler contracts and note some of the implications and streamlining efforts that are being explored related to the Integrated Billing System (IBS).

BACKGROUND

The 2009 Zero Waste Strategic Plan approved by Council in December 2008 included an evaluation for possible term extensions of the Recycle Plus hauler contracts for an additional two years to June 30, 2015. Concurrently, staff is developing a strategy to address known technology issues and agreements supporting IBS, including Oracle/PeopleSoft for licensing and support, and Kubra for bill-print services and online payment capabilities. All of these agreements expire in 2015, coinciding with the anticipated end of the useful life of the IBS.

ANALYSIS

Initial evaluation and assessment of the current IBS workload through staff interviews has identified opportunities to make the Recycle Plus billing business model and associated processes more efficient and maximize the benefits and investments in the current billing system. Staff has identified the following areas as encompassing potential inefficiencies and/or parallel/redundant work between the City and the four Recycle Plus haulers:

- *Hauler Billing/Payment* - IBS was designed to automate the processes required to support the billing, collections, reconciliations, and payments of hauler services in accordance with the contractual agreements between the City and the haulers. Although the billing and collections processes have been automated through IBS, the reconciliation process between hauler invoices and hauler services have not been automated through IBS. Before the reconciliation process can be automated, discrepancies in data must be addressed and the data reconciled between IBS, the hauler billing system, and their route management software. The City

currently relies on the IBS system to track about \$75 million in payments annually to these residential garbage and recycling haulers.

- *Field Activity/Financial Transactions* - An extensive number of field activities and related financial transactions are entered in IBS by City Call Center staff, which is then transferred by an interface to the haulers. Although the interfaces are considered stable, discrepancies do occur and no viable process exists to reconcile the data other than by cumbersome and time consuming manual processes between City and hauler staff.
- *Customer Billing/Account Maintenance/Management/Adjustment and Revenue Collection* - Parallel functionality exists between the City account maintenance staff and the haulers which present an opportunity for realizing efficiencies and reducing redundancies potentially through taking responsibility for these services.
- *City and Hauler Call Centers* - The City and each of the haulers separately maintain a fully staffed call center. Customers call the city call center for billing and service issues, but they also have the option of calling the hauler call centers for service related issues. An opportunity exists to re-design the Call Center functions through the haulers thereby reducing the City's costs and eliminating the existing redundancy and inefficiencies.

The City currently provides billing and customer service functions that most haulers already provide as a core part of their business model for other municipalities, such as billing, revenue collection, debt recovery, and customer service. For example, haulers for the cities of Oakland, San Francisco, Santa Rosa, Stockton, Irvine, Chula Vista, Fremont, Modesto, San Ramon, Citrus Heights, and Rancho Cordova bill their customers directly. Some of these same cities (Oakland and Citrus Heights), use the lien process to collect delinquent accounts similar to San José's current process. In cities where haulers bill directly, haulers can be responsible for collection activities; if those activities do not yield payment, the hauler provides the 'lien list' to the city for lien processing. The majority of haulers already have the resources, facilities, procedures, and technology in place to perform these functions, and these haulers provide billing services in a highly competitive environment to multiple customers.

The City began billing directly for residential garbage and recycling services in 1993 and at that time staff recommended direct billing to provide control over revenues and managing hauler performance. Those issues have largely been mitigated through advances in technology which could allow City staff web "read-only" access to haulers' billing and customer services databases, which have become more common in the industry. There are also new banking solutions and "lock box" services widely available which could provide the City more control over revenue, even if the haulers bill directly for service.

One of the goals of staff's negotiations with the haulers is to address and mitigate impacts from IBS's future end of lifecycle/support subsequent to Oracle's acquisition of PeopleSoft. In addition to considering the financial benefits and program enhancements that might be gained from term extensions, staff is evaluating ways to streamline the current billing, customer service,

HONORABLE MAYOR AND CITY COUNCIL

03-05-10

Subject: Recycle Plus Hauler Negotiations Update

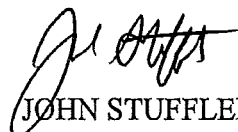
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and hauler payment processes related to IBS. As part of the evaluation process, exploring the feasibility of having the haulers assume some or all of the shared tasks described above is under consideration. Process improvements could also include streamlining hauler rate structures and cart exchange processes in order to reduce staff time and billing/invoicing errors and improve customer service.

Any negotiations for future hauler services will consider the cost, timing, and nature of current processes to increase efficiencies and will support the IBS technology strategy. It is anticipated that staff will conclude the hauler contract negotiations and be able to present term extension options for the Recycle Plus agreements to Council for consideration in late March 2010.

COORDINATION

This memorandum was coordinated with the Information Technology Department, Finance Departments, and the City Attorney's Office.



JOHN STUFFLEBEAN
Director, Environmental Services

For questions please contact Jo Zientek, Deputy Director, Integrated Waste Management Division, at (408) 535-8557.